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SENSITIVE  
SIPDIS

WHA/EX FOR JAMES ROBERTSON AND JAMIE SEALE  
HR/OE/CMP SALLY CINTRON  
WHA/CAR (DOFFMANN)(VDEPIRRO)(WSMITH)  
WHA/EPSC (MROONEY) (FCORNEILLE)  
SANTO DOMINGO FOR FCS AND FAS  
TREASURY FOR ERIN NEPHEW

E.O. 12958: N/A

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SUBJECT: JAMAICA: FSN WAGES STAGNATE AMIDST HIGH INFLATION; ACTION  
REQUESTS RE COMPENSATION INCREASE, SURVEY, COLA

REF: A) KINGSTON 306  
B) KINGSTON 315  
C) KINGSTON 405  
D) KINGSTON 422  
E) 08 KINGSTON 366  
F) KINGSTON 427  
G) STATE 62454

#### SUMMARY

1. (SBU) Jamaica has a long history of price instability influenced largely by currency depreciation. Prices rose on average by 13.4 percent annually during the past six years. Although inflation has moderated to below 2 percent for the first four months of 2009, it is expected to increase for the remainder of the year. Policy-induced measures led by the record tax package announced in April 2009 are expected to drive up prices in the upcoming months. The upward movement in oil prices is also set to drive up inflation. However, the single biggest threat to price stability and, by extension, the standard of living is the continued depreciation of the Jamaican dollar. The currency has depreciated against the U.S. dollar by almost 30 percent since September 2008. Public and private sector workers have generally been compensated for these price movements, with salary increases averaging over 10 percent during the last six years. In contrast, senior FSN salaries have continued to lag, averaging about six percent over the same period. The stagnation of senior FSN salaries makes it difficult to retain and recruit top talent. Please see action reluestions paragraphs 12, 13, and 14. End summary.

#### The Raw Numbers

2. (SBU) Jamaica has a long history of price instability influenced largely by frequent bouts of currency depreciation. During the last six years prices increased an average of 13.4 percent per year, making Jamaica a high inflation Post. The local currency slipped by about 8.3 percent on average, relative to the U.S. dollar over the same period. Since January 2009, the Jamaican dollar has weakened by a further 17 percent, and with the three main pillars of the economy--tourism, remittances and bauxite--threatened and oil prices rising, there will likely be further bouts of depreciation through 2009. Collapsing bauxite earnings (three of Jamaica's four plants have closed) and declining remittances, down by between 15 and 20 percent per month, have prompted some analysts to predict a Balance of Payment (BOP) crisis in the near term (reftel C). This could explain why the GOJ has spent the last three months telegraphing a return to the IMF (reftel D).

¶3. (SBU) The country's high dependence on imports, equivalent to almost 70 percent of GDP, means that any slippage in the currency translates into an almost automatic increase in prices, referred to as imported inflation. Inflationary impulses are also fed by supply shocks brought on primarily by interruptions such as hurricanes to domestic agriculture, resulting in cost push inflation. This is having a devastating impact on cost of living as food accounts for over 50 percent of the basket of goods and services. And while international commodities prices have moderated, there seems to be no end in sight to rising food and energy prices in Jamaica. In fact, it is not unusual for food and fuel prices to change weekly as the currency depreciates (reftel E). This also impacts American employees as Post's Cost of Living Adjustment (COLA) was eliminated when the Jamaican dollar fell even though the prices on which the COLA was based rose immediately to reflect the new exchange rate.

What Does this Mean To Post  
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¶4. (SBU) The GOJ has targeted a moderation in inflation to between 11 and 14 percent for 2009, but unfolding events are likely to stymie this projection. Inflation for the four months of 2009 is at a record low of 1.7 percent, but this has more to do with the fact that prices had adjusted to record levels in 2008. Prices are set to soar on the back of policy-induced measures, led by a record tax package announced in the budget presentation in April 2009. In particular, the GOJ imposed a JMD 8.75 (USD 10 cents) per liter tax on fuel to help fund the shortfall in the budget (reftel B). Since transportation is a major component of economic activity, this measure is expected to drive price increases throughout the economy. In addition to the inflationary effects, the tax measures combined with a possible increase in National Insurance contributions are expected to reduce disposable income even further.

¶5. (SBU) With Jamaica dependent on imported oil for 95 percent of its energy needs, inflation is exacerbated by rising oil prices. If predictions prove true and oil prices rise as high as USD 80 per barrel, it will have a crippling effect on the cost of living, particularly because the local electricity company is about to be granted a tariff increase to raise electricity prices. That increase will be passed on directly to consumers and is expected to send electricity rates to new highs, even though they are already some of the highest in the region. (reftel F).

6 (SBU) The single biggest threat to inflation is the depreciation in the Jamaican dollar. In fact, supermarkets, which are highly dependent on imports, tend to change prices almost weekly in response to the weakening local currency. These moves are expected to feed inflationary expectations fuelling another round of price increases. Already, private schools have announced steep increases in tuition, forcing some parents to shift their children to less desirable, but more affordable public schools.

Public and Private Sector Salaries Adjust  
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¶7. (SBU) Recognizing the cost implications of high inflation in Jamaica, both public and private organizations have tended to adjust salaries in line with price movements. During the last six years salary increases (excluding benefits) in the public and private sectors have increased on average by 10.3 percent and 12 percent, respectively. This is almost in line with the average inflation rate of 13.4 percent over the same period. The increases, especially in the private sector, have tended to be granted on an annual basis. As a result, both public and private sector salaries continue to be highly competitive, keeping purchasing power relatively robust.

Senior FSN Salaries Lag  
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¶8. (SBU) Even though senior FSN employees at the U.S. Embassy might be hired at a premium on their previous employ, this is quickly eroded as salary increases are irregular and, when granted, are at a discount to inflation. This is particularly stark given that salaries are paid in local currency. Salary increases (excluding benefits) especially at the more senior FSN positions have lagged

both private and public sector salaries and inflation. During the last six years, higher level salaries have increased by a mere 6.2 percent. This means that although salaries have risen in nominal terms, purchasing power has been reduced on average by over 7 percentage points annually. The disparity in remuneration becomes even more pronounced when it comes to benefits. Traditionally, a large portion of Jamaican salaries have been paid in the form of fringe benefits/allowances. Some comparators pay allowances of nearly 50 percent of basic salaries and when bonuses (private sector) are factored in, benefits and allowances can rise to almost 75 percent of basic pay.

#### Benefits Analysis

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¶9. (SBU) The financial value of benefits appears to be the major difference. From a salary comparison a senior FSN position will secure benefits of JD 360,000 (USD 4,068) per year, whereas in the GOJ the same level position would yield JD 1.6 million (USD 18,080) and in the private sector JD 2.3 million (USD 25,990) in benefits. The type of benefits are the same including items such as meals and clothing allowances, but the amount of money provided for benefits is higher for the GOJ and private sector. In addition, the GOJ and private sector provide either a car allowance (private sector) or a waiver on import duties for a vehicle (public sector). (NOTE: the import duty on a vehicle can be equal to 200 percent of its value. A person who sells the vehicle after three years can essentially recover their entire cost or even make a small profit. END NOTE). These benefits significantly bolster purchasing power by drastically reducing or even eliminating vehicle costs.

#### Agricultural Specialist Wooed By Government

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¶10. (SBU) Uncompetitive Embassy salaries and benefits are expected to start affecting recruitment and retention, especially at the senior FSN levels. In December 2008, Post lost its Agricultural Specialist (AS) to the GOJ. The AS, who was being compensated at Grade 11 (JMD 2.9 million - USD 32,770), realized a 70 percent premium under his new compensation plan, which totals JMD 5.1 million (USD 57,630) including benefits. According to the AS after he left the Mission, the Ministry of Agriculture officials expressed alarm at the divergence of salaries being offered by the Mission compared to the GOJ. Before the interviews began for an AS replacement, one prospective GOJ employee withdrew her application after hearing the salary offered for the position. Even more interestingly, the preferred candidate selected after interviews also refused the position apparently because of the salary and chose to stay with her current employer, the GOJ. These are clear indications that Mission salaries for senior FSN positions are not competitive enough to recruit top talent.

#### Comment

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¶11. (SBU) Salaries at Post for senior FSN positions have lagged the larger market. To date, the relatively low levels of attrition may provide a false sense of security. As the gap in salaries widens, the pace of attrition appears to be gaining momentum. Management in USAID, Peace Corps and State Department have all been approached by senior FSNs who have said they are looking at other positions in the private sector or with multilateral organizations that pay a higher wage. Most LE staff are part of dual income families, and as the economy has worsened, they are feeling the pinch on both ends as their salaries fail to keep pace and their spouses earn less or lose their jobs altogether. These senior employees are post's most valuable, and losing them would devastate post operations. We must act quickly to ensure that the compensation provided at Embassy Kingston is sufficient to halt the "brain drain" that has already begun. End Comment.

#### Action Requests

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¶12. (SBU) In Ref G, HR/OE has recently sent to post their current analysis of Embassy compensation which puts the Mission as much as 35 percent behind comparator organizations depending on grade. Post requests that WHA/EX authorize as high an increase as it is possible

to carry forward into FY11 to remedy this situation.

¶13. (SBU) Post remains concerned, given information received about compensation packages in the GOJ, that the value of benefits is not being sufficiently captured in compensation reviews. Post requests that HR/OE closely review the data provided by Birches Group to ensure that its Jamaican compensation survey fully covers the many benefits provided by typical employers here, particularly those related to vehicles and transportation. Post would be happy to assist in that review if HR/OE can make the information available to Kingston HR.

¶14. (SBU) American employees at post already are consistently upset at the disconnect between their experience at the cash register and the lack of a COLA benefit in their paycheck. Part of this is that the basket of goods surveyed doesn't accurately capture what the typical family buys, and much of what is left out are the products with the biggest disparity in price. We cannot fix that, but post requests that RM recognize the economic reality noted in Paragraph three above and eliminate automated adjustments to the post allowance should it be reestablished following submission of the most recent report. Unlike many countries, prices in Jamaica increase almost immediately in response to slippage of the value of the Jamaican dollar against the U.S. dollar. The assumption upon which RM's automated system is based - that American employees' buying power increases with exchange rate gains - is incorrect when applied in Jamaica.

MOSS